LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **SB 26** SLS 09RS 89
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date:	June 24, 2009 6:04 PM	**Author:**	GAUTREAUX, N.
Dept./Agy.:	Revenue		
Subject:	Increases and makes refundable the alternative fuel credit	**Analyst:**	Deborah Vivien

TAX/TAXATION EN -$164,000 GF RV See Note

Provides relative to income tax credits for the cost of qualified clean-burning motor vehicle fuel property. (gov sig)

Current law provides a nonrefundable income tax credit of 20% of the investment in a qualified clean-burning motor vehicle fuel property. For purchases of hybrid vehicles, the taxpayer can elect to take a credit of the lesser of 2% of the vehicle cost or $1,500. This credit may be carried forward against subsequent state income tax liability for up to three years. If this credit is claimed, the taxpayer is prohibited from also claiming a Qualifying Jobs credit (a payroll subsidy program). Current law counts only the jobs directly employed by a participating firm for purposes of generating benefit payments to firms participating in the Quality Jobs Program. Proposed law increases the credit to 50% of the investment in a qualified clean-burning motor vehicle fuel property and makes the credit refundable. For purchases of hybrid vehicles, the taxpayer can elect to take a credit of the lesser of 10% of the vehicle cost or $3,000. The bill also repeals the prohibition of claiming a Quality Jobs benefit simultaneously. Investment will not include costs associated with severing natural resources. Effective upon governor's signature for expenditures made on and after January 1, 2009. (CONTINUED ON PAGE 2)

EXPENDITURES	2009-10	2010-11	2011-12	2012-13	2013-14	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2009-10	2010-11	2011-12	2012-13	2013-14	5 -YEAR TOTAL
State Gen. Fd.	($164,000)	($422,000)	($681,000)	($940,000)	($1,200,000)	**($3,407,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($164,000)**	**($422,000)**	**($681,000)**	**($940,000)**	**($1,200,000)**	**($3,407,000)**

EXPENDITURE EXPLANATION

The Department of Revenue reports the potential cost of making changes to the tax processing system to incorporate the changes to this credit, including programming time and form modification. There may also be ongoing costs associated with taxpayer inquiries and disputes involving the changes to these credits. It is not known how many contract employment arrangements may ultimately participate in the program under the conditions of this bill. Administration of a growing number of these arrangements will likely incur additional costs at some point.

REVENUE EXPLANATION

Alternative Fuel Vehicle Credit

Tax year 2007 data indicates that 32 individuals and 3 corporations claimed the credit for a total of $109,216. Returns from tax year 2008 are currently being processed but year-to-date claims are $58,730. It is unclear whether additional claims can be made in subsequent years from these same investments since the credits can be carried forward for three years. Assuming that tax year 2007 implies a typical pattern, increasing the credit from 20% to 50% or an increase of 1.5 times the current rate, credits would have been issued for $109,216 * 1.5 or $163,824, assuming available liabilities and investments that increased proportionally. For vehicles purchased with alternative fuel capabilities, raising the investment estimate cap from the lesser of 2% of the vehicle cost or $1,500 to the lesser of 10% of the vehicle cost or $3,000 is expected to be captured within the rate increase calculation.

By making the credit refundable, this legislation removes the constraint that the credit be tied to state income tax liability, which could increase claims for the credit. The impact to the state fisc will be immediate and no longer spread over three years. Given the current climate of expanded federal incentives to switch to alternative fuels and the growing availability of choices among vehicles, this credit could grow quicker than the figures shown. In addition, the bill would pay for 50% of the costs of fueling/dispensing equipment. If gas stations add this equipment or firms operating vehicle fleets add this equipment, the costs of this credit could increase substantially more than implied by the discussion above and the figures in the table above. The annual growth rate beyond FY 09/10 is five percent.

This bill also repeals the statute that prohibits simultaneous use of Quality Jobs credits, which may increase state tax liabilities slightly.

Quality Jobs Program Inclusion of Contract Workers

Although the bill appears to require the targeted workers to be essentially the same as those directly employed by the participating firm (at least with regard to the program's wage and insurance requirements), the bill does allow jobs to be counted, toward generation of the program's benefit payments, that are employed by firms contracting with the participating firm rather than being directly employed by the participating firm. The participating firm would be able to count jobs that it would not otherwise be able to count and receive 80% of the benefit payments associated with those job counts. Thus, the (CONTINUED ON PAGE 2)

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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CONTINUED EXPLANATION from page one:

Bill Summary (continued)

Proposed law would allow jobs employed under contract to be counted for the purposes of generating benefit payments. The contractor must meet the work hour, wage, and health insurance requirements of the program. The participating firm must be classified by the program as a manufacturer. Beginning July 1, 2010, the participating firm's benefit for contract labor shall be 80% of the benefit rate provided by the program. These provisions are effective through June 30 2014, but employers approved by that time receive program benefits through the term of their agreement with the state. Effective July 1, 2009 for all contracts in effect as of July 1, 2009 and any contracts thereafter.

Revenue Explanation (continued)

bill will allow more jobs to be counted for purposes of generating benefit payments than current program provisions allow. This increases the costs of the program.

A specific estimate of the amount of additional costs likely to be added to the program can not be generated. However, utilizing contract labor appears to be typical among industrial firms that the bill is targeting; where 25% - 45% of employment at a facility can be contract labor. Depending on how many contract jobs qualify for the program under these new provisions, the bill could materially increase the State's cost exposure from the program. Specific revenue losses in particular fiscal years are uncertain.

While the last analysis performed for this issue is somewhat dated, that program data gave some idea of the potential costs of program expansion. Program data on all contracts with manufacturers since the program was modified in 2002 was examined in 2004. The 25 firms in the data at that time qualified an average of 98 jobs per contract, generating $1,619 in benefits per job per year. After deducting Enterprise Zone employment tax credits that can not be received by Quality Jobs Program participants (assumed available for every job in the program), 80% of net benefits generated would be $1,095 per job per year. Thus, for every 457 contract jobs added to the program (4.7 average size applicants), $500,000 per year would be added to program costs for up to ten years.
New additional costs will be generated each year for five years, as contract jobs enter the program each year, with each year's new participants generating additional five-year and potentially ten-year cost obligations. Costs are realized by reductions in state revenue collections since benefits are paid primarily by making payments directly to participating firms from current income or franchise tax collections from all taxpaying firms before they are deposited into the state treasury.

One half of this annual scenario ($250,000 accumulating per year) is added to the estimate of the alternative fuel tax credit for display of the bill's total possible impact in the table above.

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